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Sanctions on Rosneft and Lukoil: Initial impacts and policy implications

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Executive Summary

- Initial market impacts have been substantial. Russian export volumes have fallen and the Urals discount has widened to its highest level since early 2023 (–$24 per barrel, or 37 percent).
- Rosneft's and Lukoil's international assets have experienced significant operational disruptions and forced divestment processes.
- US enforcement will be the key determinant of impacts going forward. Importers and intermediaries are likely assessing the strength of US commitment before deciding whether to comply with, defy or attempt to evade the sanctions. Weak enforcement would likely allow export volumes to rebound and discounts to narrow.
- European policymakers should support US sanctions while also considering additional measures that do not rely heavily on US coordination or commitment.

Introduction

On 22 October 2025, the US Treasury's Office of Foreign Assets Control (OFAC) imposed sanctions on Russia's two largest oil companies, Rosneft and Lukoil. Following a 30-day wind-down period, the measures took effect on 21 November. The official justification for the sanctions was Russia's continued lack of commitment to the US-led peace process.

Rosneft and Lukoil together account for about half of Russia's total oil production. Combined with the Biden administration's January 2025 sanctions package, involving sanctions on Gazprom Neft and Surgutneftegas, around 80 percent of Russia's oil production should now be under US sanctions. If fully adhered to globally, the sanctions would remove most of Russian oil exports, equivalent to more than 5 percent of global oil supply.

The sanctions therefore have the potential to significantly affect Russian export volumes and revenues, while also posing the risk of a sharp global price spike. This comment reviews the initial impacts to date—including effects on trade flows, price discounts, and disruptions to international assets—and discusses likely developments going forward, along with their implications for European policymakers.

Strategic responses: Compliance, defiance or evasion

The main mechanism for enforcing compliance among non-US actors is the threat of secondary sanctions, which means that those doing business with sanctioned entities may themselves be sanctioned.

In response to the US sanctions on Rosneft and Lukoil, foreign actors have three broad strategic choices. They can fully comply and refrain from any attempts to circumvent the restrictions, an outcome that would significantly reduce Russian export volumes. If they choose not to comply, they can either defy the restrictions openly, and accept the risk of secondary sanctions, or evade them by concealing their involvement with the sanctioned companies. Evasion typically involves a mix of administrative and physical manoeuvres, such as the use of shell companies and intermediaries, obscuring tanker destinations, ship-to-ship transfers, rebranding of Russian oil and conducting transactions in non-dollar currencies.

However, evasion is not without risk. Depending on the level of investigative effort and enforcement will, OFAC can still impose secondary sanctions if it sees through such arrangements. Moreover, the threat of secondary sanctions and the use of intermediaries and complex structures increases costs. Even when actors succeed in avoiding OFAC penalties, these additional costs ultimately affect Russia's bottom line by widening the discount on its oil. In other words, the sanctions still have an effect on Russian revenues even if export volumes are not reduced.

Russia will do what it can to persuade buyers to choose evasion or even defiance, including selling oil through newly created or unsanctioned entities. If enforcement is weak and OFAC does not follow up with sanctions on these new Russian sellers and intermediaries, or with secondary sanctions on buyers, this will create opportunities for foreign buyers to comply formally with the rules while still purchasing Russian oil. In such a scenario, export volumes are likely to recover and the discount to narrow. In short, the effectiveness of the sanctions ultimately depends on enforcement, which in turn relies on both capacity and political will.

Initial market impacts: Volumes down, discounts up

There has been a notable drop in total Russian oil exports since the announcement and introduction of the new sanctions. Exports of crude oil were 20 percent lower in November than in October, while refined clean products were down 39 percent according to LSEG data. Kpler reported a 17 percent decline in crude, while Bloomberg reported a smaller, temporary fall, with export volumes recovering in the first week of December. Recent drone attacks on Russian oil infrastructure have also contributed to these developments.[1]

1 The Rosneft–Lukoil sanctions are assumed to be the major driver of the observed effects but other factors, most notably recent drone strikes, complicate any cause-and-effect interpretation. For example, the decline in refined product exports also reflects strikes on Russian refineries, while attacks on tankers and export terminals are likely to have affected export flows and transport premiums. Disentangling the individual contribution of each factor requires further analysis.

Looking at crude departures by (official) destination in November compared with October, there has been a significant drop in shipments to major importers India (LSEG -51 percent, Kpler -39 percent), China (LSEG -18 percent, Kpler -42 percent) and Turkey (LSEG -45 percent, Kpler -62 percent). In addition to the corresponding rise in unknown destinations, there has also been a sharp increase in the volume of Russian oil at sea, meaning barrels that have not yet found, or made it to, their final destination. Around 180 million barrels of Russian crude is now at sea, up by 28 percent since August, according to Bloomberg.

The total discount on Russian oil has increased significantly since the announcement and implementation of the sanctions (see Figure 1). For Urals crude, it now stands at $24 per barrel compared with the Brent crude benchmark, equivalent to a discount of 37 percent. This is a substantial impact and the highest percentage discount recorded since April 2023.

Discounts on Russian Urals crude ($ per barrel)

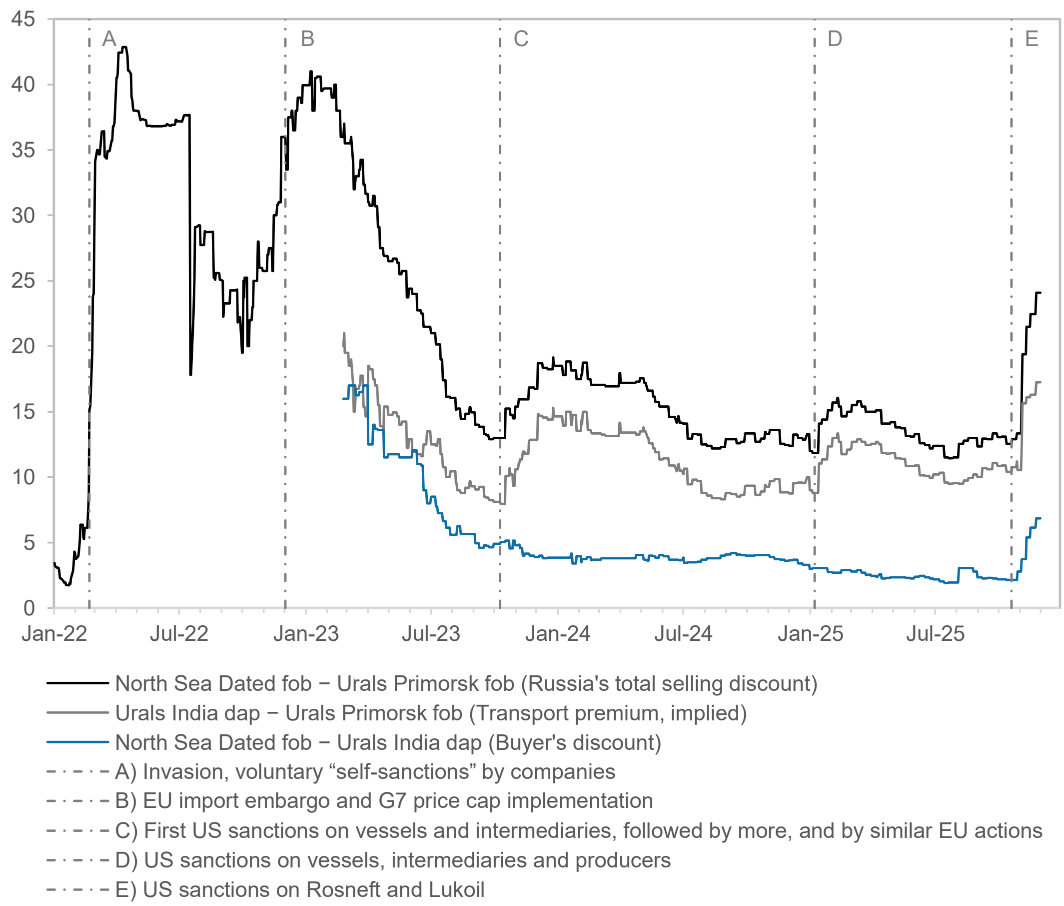

Figure 1. Discounts on Russian Urals crude ($ per barrel) and major sanctions events

Notes: Russia's total selling discount (black line) is the sum of two components: the buyer's discount and the transport premium. The total discount is measured as the difference between the North Sea Dated (Brent) price in Europe (fob) and the Urals price in Primorsk (fob). The buyer's discount is calculated as the differential between the North Sea Dated (fob) and the delivered price of Urals in Indian ports (dap). The implied transport premium is the differential between Urals in India (dap) and Urals in Primorsk (fob). All price series are from Argus.

Earlier episodes of heightened sanctions, such as the introduction of the EU import embargo and the G7 price cap, as well as major rounds of sanctions on vessels, have also widened the discount, as shown in Figure 1. However, the mechanisms driving the increase have differed across episodes. For a more detailed discussion on these dynamics and the underlying methodology, including the framework used to calculate the two components of the total discount, the buyer's discount and the transport premium (or transport cost), see Spiro, Wachtmeister & Gars (2025).

Measures that increase risks and costs for importers, such as reputational damage or the threat of secondary sanctions, increase the buyer's discount. This component also reflects the importer's bargaining position. Sanctions that affect the tanker market, such as sanctioning the shadow fleet, increase the transport premium.

The Rosneft–Lukoil sanctions should in theory affect both components, and the data indeed show a significant rise in each. The sanctions increase the risks and potential costs faced by buyers, which increases the buyer's discount. They also increase the risks faced by tanker operators and intermediaries, which increases the transport premium. Earlier rounds of vessel sanctions only affected the transport premium and did not materially change the buyer's discount. Notably, this is the first time in three years that the buyer's discount has shifted significantly.

Taken together, the data indicate that major importers, as well as intermediaries, are taking the sanctions threat seriously, at least for now. It remains to be seen which strategy they will ultimately adopt.

Impacts on international assets

Beyond the broader market effects, the sanctions have major company-specific implications for Rosneft and Lukoil, particularly regarding their international assets. Lukoil is especially exposed as it has more than $20 billion in overseas assets. Several operations have already been disrupted: its giant West Qurna-2 oilfield in Iraq has declared force majeure after payments were halted, and multiple Lukoil-owned refineries in Europe face forced divestment processes.

Lukoil is actively trying to divest its international portfolio and OFAC has issued a general licence that allows such sales under specific conditions, including complete severance of ties with Lukoil and the placement of any proceeds in a blocked account until sanctions are lifted. A high-profile example is the proposed sale to the commodity trader Gunvor, which OFAC signalled it would not authorise. At the same time, OFAC has issued limited exemptions to prevent abrupt shutdowns of certain European and US downstream assets.

The key uncertainty: US commitment and enforcement

The sanctions have had notable immediate effects, but their effectiveness going forward will depend on US enforcement, as well as on the strategic choices made by the major oil importers. Any follow-up actions by OFAC will naturally take time to administer, but so far the US has neither imposed secondary sanctions nor added additional Russian oil companies to the list, even as trade has begun to shift from Lukoil and Rosneft to non-sanctioned Russian entities. The strength of US enforcement therefore remains an open question. Importers, traders and other involved actors are likely waiting to see how Washington proceeds before determining their own course of action.

Some expectations can nevertheless be outlined for the largest buyers. India is more likely to maintain reduced imports of Russian oil. US leverage over India is stronger than over China, and given ongoing trade negotiations and tariff disputes, Russian oil imports could become part of a potential Trump "deal".

China, by contrast, is less likely to comply with the sanctions. If past behaviour is any guide, major state-owned companies will avoid direct transactions with sanctioned entities, while smaller firms and refineries might choose to ignore the restrictions entirely. If India and other importers such as Turkey significantly cut Russian imports, China might even increase its purchases, benefiting from a deeper discount while simultaneously supporting its most important geopolitical partner. The US is likely to be reluctant to impose secondary sanctions on Chinese firms in the near term, following the recent de-escalation of the trade war and the one-year truce agreed after the Xi–Trump meeting in October.

In any case, the US commitment to the sanctions remains uncertain. They were apparently imposed as part of the Trump-led peace process. If that process results in a peace agreement, which many observers consider unlikely, the sanctions are expected to be lifted. If the process drags on, enforcement may be weaker, consistent with Russia's use of negotiations to subvert the threat of new sanctions. If the process collapses, enforcement would still be highly uncertain. One possibility might be that the US leaves the initial sanctions formally in place but abandons any meaningful follow-up or enforcement actions. In all cases, the direction of US sanctions policy is largely outside European control.

Conclusions and policy implications

The immediate effects of the US sanctions on Rosneft and Lukoil have been substantial, reducing export volumes, widening discounts on Russian oil and disrupting or freezing international assets. Their effectiveness going forward, however, will depend on US enforcement capacity and, most importantly, the political will to enforce. With effective and sustained US enforcement, the impact could be considerable and exceed what has been observed so far. Without further US enforcement, Russia, intermediaries and aligned importers are likely to adapt, allowing export volumes to recover and discounts to narrow.

Beyond supporting US sanctions and their enforcement, European policymakers should consider additional measures, including those that do not depend heavily on US coordination or commitment. One such option is a comprehensive transport ban on Russian oil; another is to strengthen the EU's capacity and willingness to use secondary sanctions on intermediaries and buyers of Russian oil.

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